

Message Text

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43

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FM AMEMBASSY HELSINKI

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INFO AMEMBASSY COPENHAGEN

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E.O. 11652: N/A

TAGS: ECON, EFIN, EALR, FI

SUBJECT: NEW EXPERTS GOVERNMENT ORGANIZES TO TACKLE ECONOMIC
PROBLEMS

REF: A) HELSINKI 570; B) HELSINKI 1273; C) HELSINKI 1232

SUMMARY:

1. THE NEW LIINAMAA GOVERNMENT IS ORGANIZING ITSELF TO TACKLE
FINLAND'S SERIOUS ECONOMIC PROBLEMS. ONE OF FIRST SUBSTANTIVE
ACTIVITIES WAS AGREEMENT BETWEEN THE GOVERNMENT AND REPRESENTATIVES
OF MUNICIPALITIES AND TOWNSHIPS TO RESTRAIN GROWTH OF PUBLIC
EXPENDITURES AND TO KEEP DOWN INCREASES IN PERSONNEL. FINNISH
COMMUNISTS CRITICIZE ECONOMIC MEASURES.
END SUMMARY

2. NEW "EXPERT" GOVERNMENT HEADED BY PRIME MINISTER KEIJO
LIINAMAA HELD AN ORGANIZING MEETING ON JUNE 17 AND A FINANCIAL
COMMITTEE WAS APPOINTED. MEMBERS OF THE LATTER ARE THE PRIME
MINISTER, MINISTER OF
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FINANCE HEIKKI TUOMINEN, SECOND MINISTER OF FINANCE

TEUVO VARJAS, MINISTER OF COMMUNICATIONS ESA TIMONEN,
AND MINISTER OF AGRICULTURE AND FORESTRY VEIKKO
IHAMUOTILA.

3. AN AGREEMENT BETWEEN THE GOVERNMENT AND THE ASSOCIATIONS REPRESENTING FINNISH MUNICIPALITIES AND TOWNSHIPS WAS SIGNED ON JUNE 17. UNDER IT BOTH THE CENTRAL GOVERNMENT AND THE CENTRAL ASSOCIATIONS OF THE MUNICIPALITIES AND TOWNSHIPS PROMISED TO TRY TO RESTRAIN INCREASES IN EXPENDITURES-BOTH ADMINISTRATIVE AND OPERATING COSTS AND CAPITAL INVESTMENT. THE CENTRAL GOVERNMENT SPECIFICALLY UNDERTOOK TO RESTRAIN GROWTH OF EXPENDITURES IN REAL TERMS TO NO MORE THAN 3 AND ONE HALF PERCENT THIS YEAR AND 2 PERCENT NEXT YEAR AND ALSO NOT TO INCREASE THE TOTAL NUMBER OF EMPLOYEES BY MORE THAN 1,350. MUNICIPALITIES AND TOWNSHIPS PROMISED TO KEEP GROWTH OF EXPENDITURES TO NO MORE THAN 4 PERCENT IN REAL TERMS THIS YEAR AND TO KEEP GROWTH OF MUNICIPAL PAYROLLS TO 2 PERCENT OR LESS. IT WAS AGREED THAT SOME PLANNED CENTRAL GOVERNMENT AND MUNICIPAL PROJECTS WILL HAVE TO BE POSTPONED, STRETCHED OUT OR REDUCED IN COST.

4. SUCH REDUCTIONS IN GOVERNMENT EXPENDITURES AT ALL LEVELS WERE PART OF THE PACKAGE OF BALANCE OF PAYMENTS' IMPROVEMENT MEASURES ANNOUNCED IN MARCH 1975 (REF. A). THESE MEASURES HAVE NOT AS YET RESULTED IN ANY NOTICEABLE REDUCTION IN TRADE AND CURRENT ACCOUNT BALANCE OF PAYMENT DEFICITS (REF.B), ALTHOUGH IT IS LIKELY THAT THE SITUATION WOULD HAVE BEEN EVEN WORSE WITHOUT THE IMPORT DEPOSIT SCHEME, WHICH WAS SUPPOSED TO HAVE AN ALMOST IMMEDIATE IMPACT AND TO BUY TIME FOR OTHER MEASURES TO BECOME EFFECTIVE. THE FORMALIZATION OF THE GOAL OF HOLDING DOWN THE GROWTH OF GOVERNMENT EXPENDITURES MAY SIGNAL AN INTENTION TO GENUINELY PURSUE A POLICY OF RELATIVE GOVERNMENT AUSTERITY. IT IS NOT CLEAR HOW BINDING THE AGREEMENT IS ON LOCAL AUTHORITIES HOWEVER.

5. FINANCE MINISTER TUOMINEN COMMENTED IN CONNECTION WITH
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THE AGREEMENT THAT THE MARCH ECONOMIC MEASURES HAVE NOT HAD MUCH EFFECT YET AND THAT THE CURRENT ACCOUNT DEFICIT IS GREATER THAN PROJECTED. HE STRESSED IMPORTANCE OF AUSTERITY IN MUNICIPAL AND TOWNSHIP SPENDING BY POINTING OUT THAT THEIR EXPENDITURES TOTAL ABOUT ONE AND A HALF TIMES AS MUCH AS CENTRAL GOVERNMENT SPENDING AND PREDICTING THAT SAVINGS IN EXPENDITURES THIS YEAR OF UP TO 500 MILLION FMKS. BY MUNICIPALITIES

AND TOWNSHIPS WAS POSSIBLE.

6 CENTRAL COMMITTEE OF FINNISH COMMUNIST PARTY, APPARENTLY ANTICIPATING THE EXPENDITURE RESTRAINT AGREEMENT, SPOKE OUT ON JUNE 16 AGAINST LOWERING OF PUBLIC EXPENDITURES AS LIKELY TO LEAD TO HIGHER UNEMPLOYMENT AND LOWER STANDARD OF LIVING FOR LABOR. IT ALSO CONDEMNED TERMS OF RECENT FINNISH LOAN AGREEMENT WITH IMF (REF.C) AS UNACCEPTABLE INTERFERENCE IN FINLAND'S ECONOMIC INDEPENDENCE WHICH WOULD SUBJECT ITS ECONOMY TO CONTROL, THROUGH IMF, BY INTERNATIONAL BIG CAPITAL.

7. IN COMMENT PRINTED IN SOCIAL DEMOCRATIC PARTY NEWSPAPER JUNE 19, BANK OF FINLAND GOVERNOR MAUNO KOIVISTO REACTED SHARPLY TO CRITICISM OF IMF LOAN DEAL. HE SAID ALLEGATIONS THAT THERE WERE UNANNOUNCED CONDITIONS OR A SECRET PROTOCOL TO AGREEMENT WERE FALSE. HE PARTICULARLY DENIED THAT THERE WAS ANY FINNISH AGREEMENT IN RESPECT TO ALLOWABLE WAGE INCREASE IN NEXT CENTRAL INCOMES POLICY NEGOTIATIONS. HE SAID IMF IS OF COURSE INTERESTED IN WHAT FINLAND PLANS TO DO TO OVERCOME CURRENT ECONOMIC PROBLEMS, BUT ONLY BECAUSE IT WANTS TO BE OF HELP. EXISTING INTERNATIONAL AGREEMENTS MUST BE FOLLOWED BY FINLAND. DEMANDS THAT FINLAND DENOUNCE THE IMF LOAN AGREEMENT AND USE QUANTITATIVE IMPORT CONTROLS INSTEAD TO MASTER TRADE DEFICIT IGNORE FACTS. FINLAND MUST HAVE CONTINUED ACCESS TO FOREIGN LOANS AND MUST MAINTAIN ITS CREDIT-WORTHINESS. INTRODUCTION OF QUANTITATIVE IMPORT RESTRICTIONS BY FINLAND COULD LEAD TO RETALIATION BY OTHER COUNTRIES. FURTHERMORE TO FOLLOW COURSE DEMANDED BY CRITICS OF IMF LOAN WOULD LEAD TO FAR GREATER ECONOMIC STRINGENCY FOR FINNS THAN UNCLASSIFIED

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COURSE NOW BEING FOLLOWED.
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